



Kentucky Retirement Systems

# KRS OVERVIEW

## Kentucky Public Retirees

### Annual Meeting

**David Eager**  
**Executive Director**

June 14, 2018

# KEY MESSAGES

1. **KRS is in a deep hole caused by many things and people**
2. **The Governor, the Legislators and the KRS Board are dealing with the problems**
3. **Retiree benefits should be safe**
4. **But it will require a long time and a lot of fiscal sacrifice and legislative discipline**

# Our Six Mandates

1. Strive for appropriate funding for all plans.
2. Provide members with efficient access to information and helpful counseling to meet their individual needs.
3. Manage the assets in accordance with each plan's needs while adding value to a passive portfolio.
4. Communicate effectively with all constituents, while ensuring appropriate transparency.
5. Maintain a work environment that promotes employee effectiveness, morale, and retention.
6. Insist on a culture of **continuous enhancement** to **everything** we do.

# ADMINISTRATION

## 17 Board of Trustees



**3 Members elected from CERS**

**2 Members elected by KERS**

**1 Member elected by SPRS**

**Personnel Cabinet Secretary**

**7 Members are Governor appointed**

**3 Members are Governor appointed from lists submitted by:**

- **KACo**
- **Kentucky League of Cities**
- **Kentucky School Boards Association**

**Approved from the Senate**

**5 Committees**






**Chair and Vice Chair are elected by the Board**

**6 Investment Professionals**








## KRS PLANS AND MEMBERSHIPS

		MEMBERS
	KERS Non-Hazardous	122,386
	KERS Hazardous	11,247
	CERS Non-Hazardous	217,359
	CERS Hazardous	18,949
	SPRS	2,581
<b>TOTAL</b>		<b>372,523</b>



## KRS MEMBER BREAKDOWN

				TOTAL
		Initiated 2008	Initiated 2014	
ACTIVE	70,542	28,997	35,879	135,418
INACTIVE	90,058	27,072	13,741	130,871
RETIRED	106,058	176	0	106,234
TOTAL	266,658	56,245	49,620	372,523

# Actuarial Valuation Results

2017 CAFR

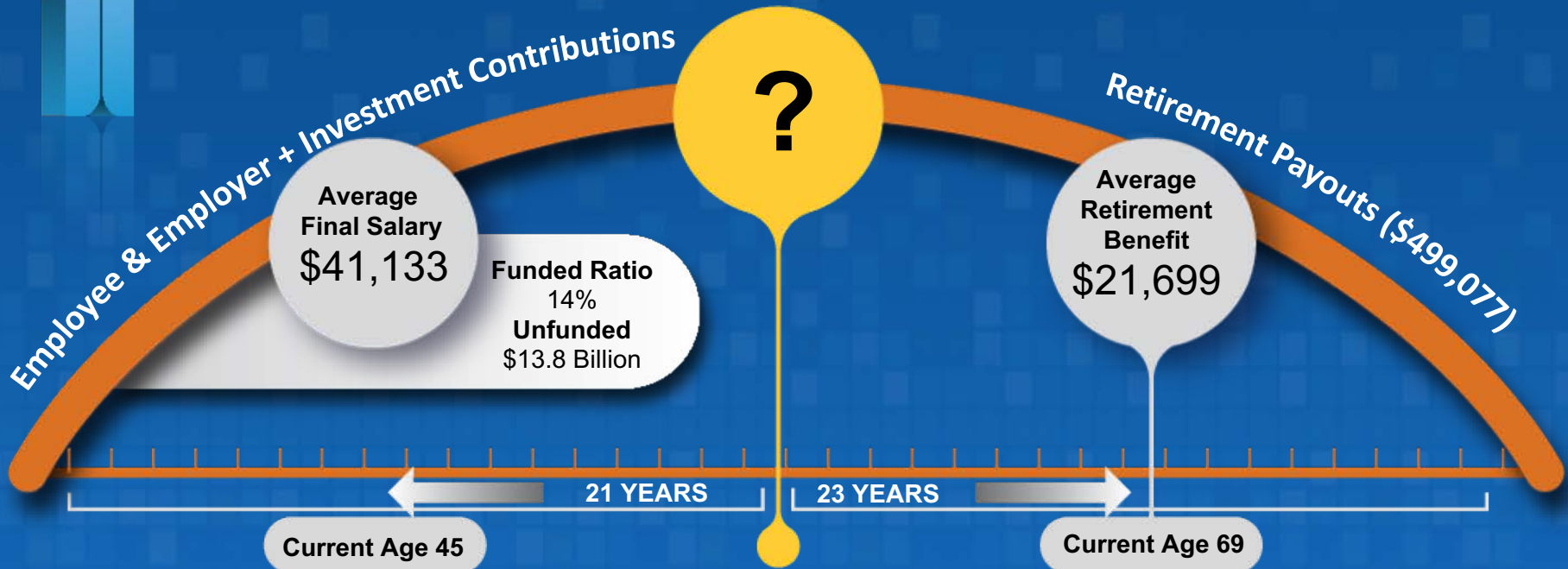


## KNOWN at valuation date

1. Age
2. Salary
3. Gender
4. Service to date
5. Occupation

## ASSUMED at valuation date

1. Future salary increases
2. Retirement date(s)
3. Death rates before and after retirement
4. Disability rates; other termination rates
5. Investment return (discount rate) = 5.25%



Date of Hire  
(Age 36)

Total Active  
36,725 ↓

Retirement  
(Age 57)

Total Retired  
40,813 ↑

Average Age of Death  
(Age 80)



# Actuarial Valuation Results

June 30, 2016 CAFR

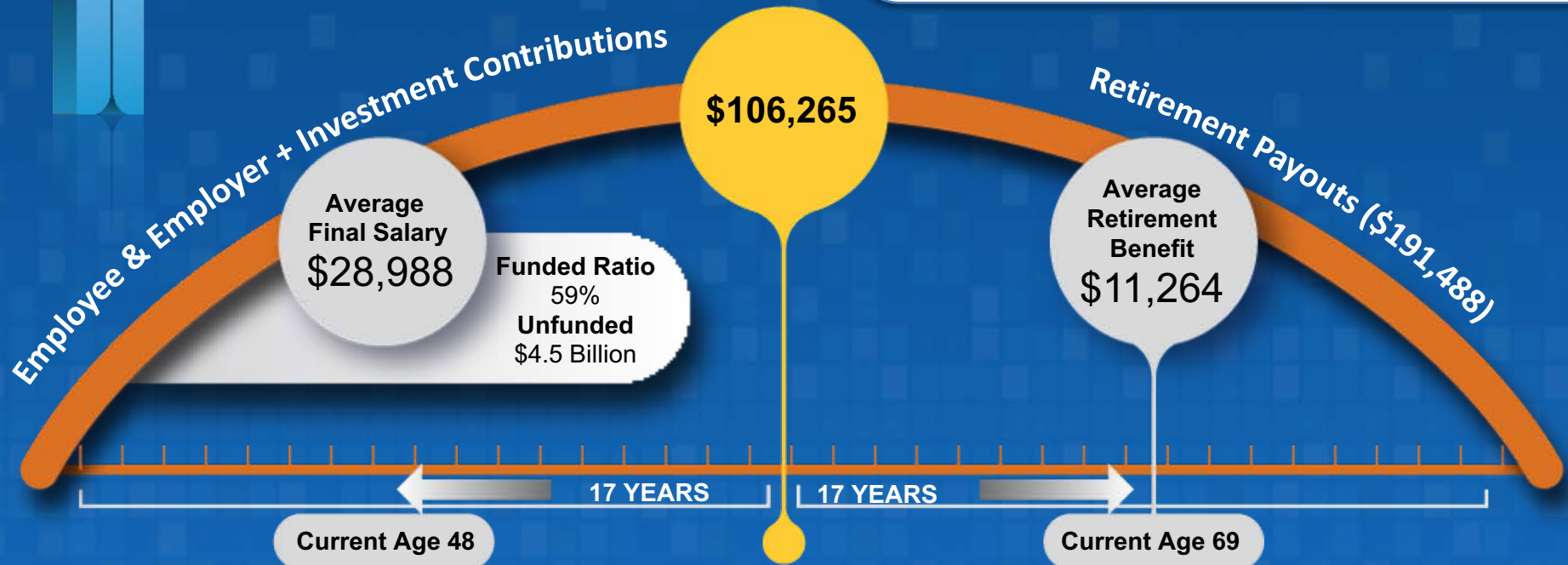


## KNOWN at valuation date

1. Age
2. Salary
3. Gender
4. Service to date
5. Occupation

## ASSUMED at valuation date

1. Future salary increases\*
  2. Retirement date(s)
  3. Death rates before and after retirement
  4. Disability rates; other termination rates
  5. Investment return (discount rate) = 7.50%\*
- \*changed for 2017*



Date of Hire  
(Age 43)

Total Active  
83,346

Retirement  
(Age 60)

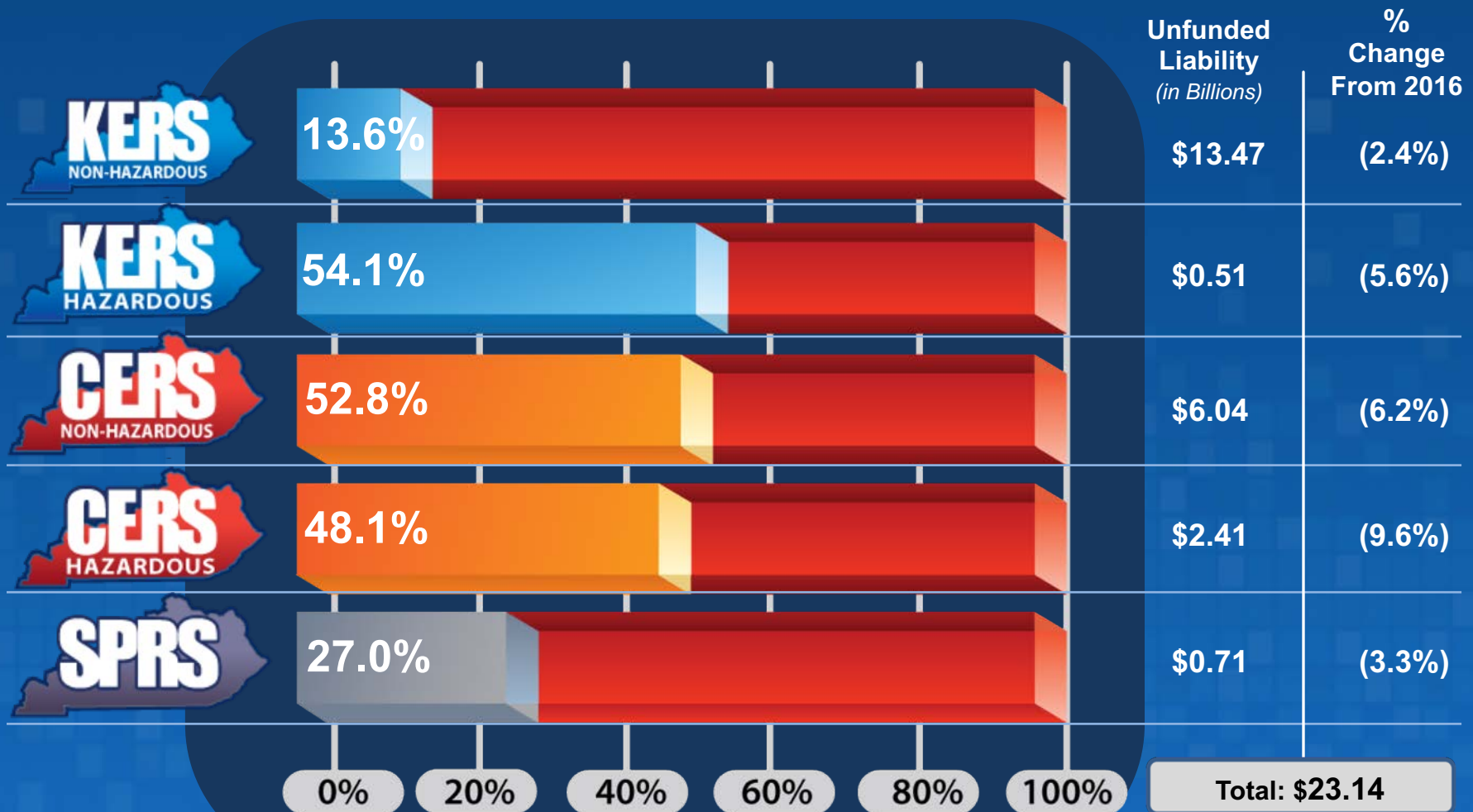
Total Retired  
51,673

Average Age of Death  
(Age 77)



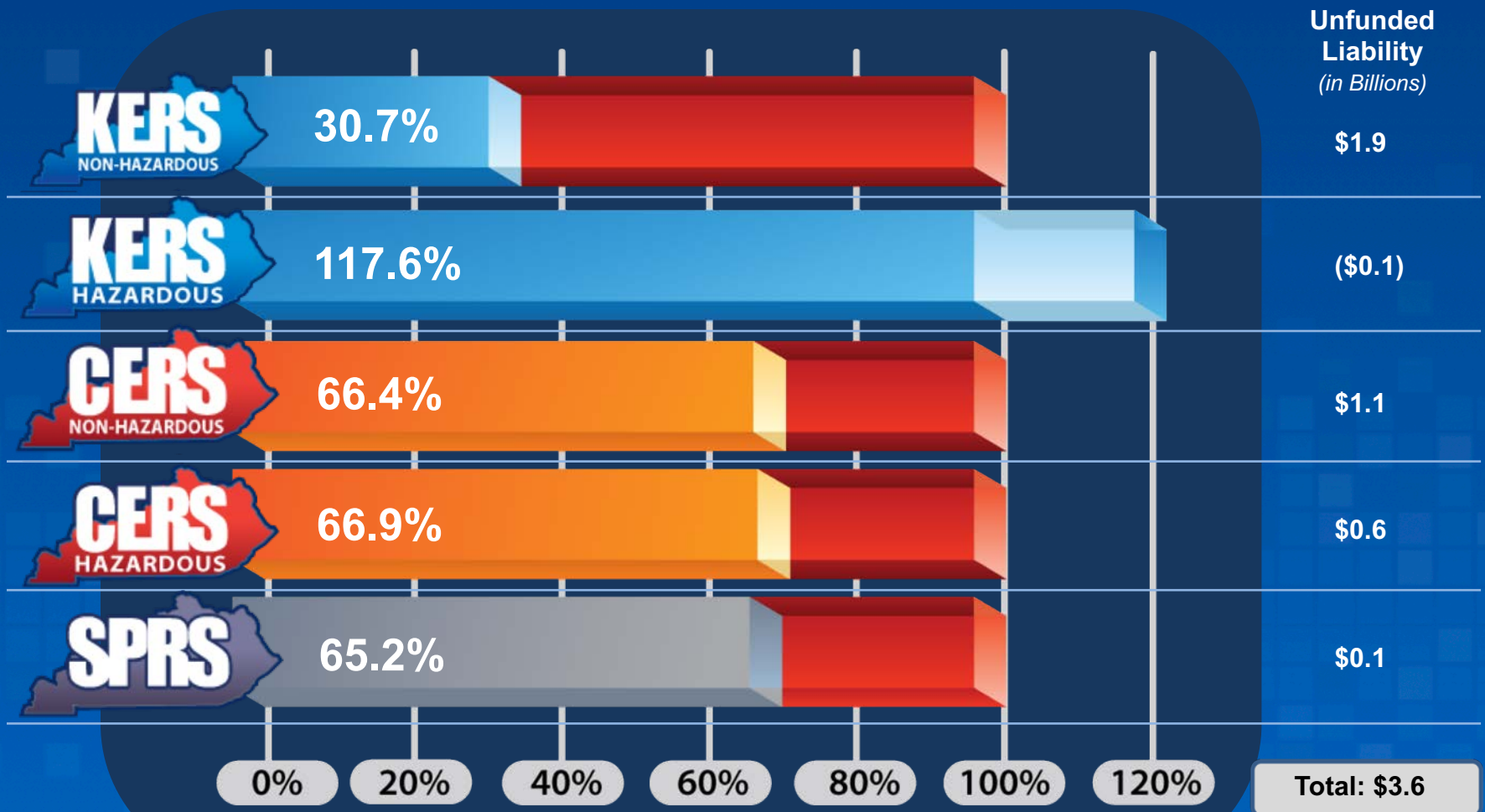
# Fiscal Year 2017 Funding Status

## PENSION



# Fiscal Year 2017 Funding Status

## INSURANCE

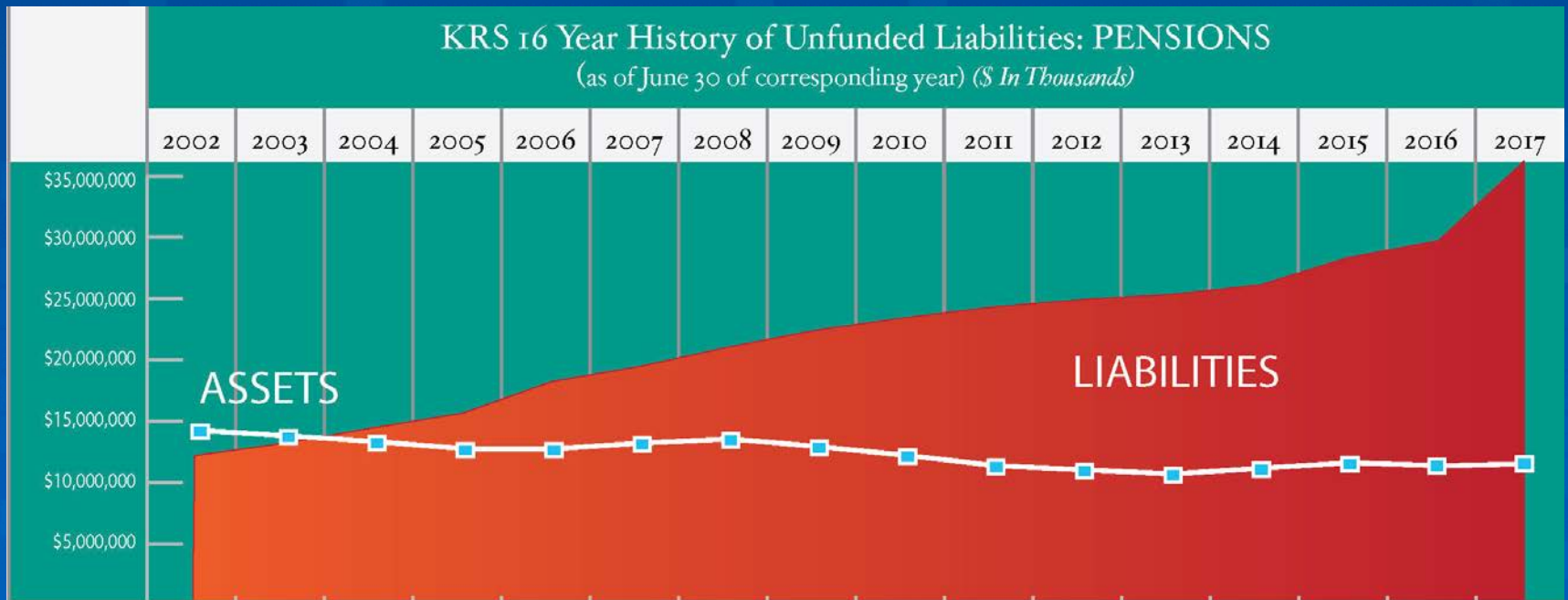




# KRS 16 Year History of Unfunded Liabilities

*(as of June 30 of the corresponding year)*

## PENSIONS





# How did KERS Non-Hazardous become so poorly funded?

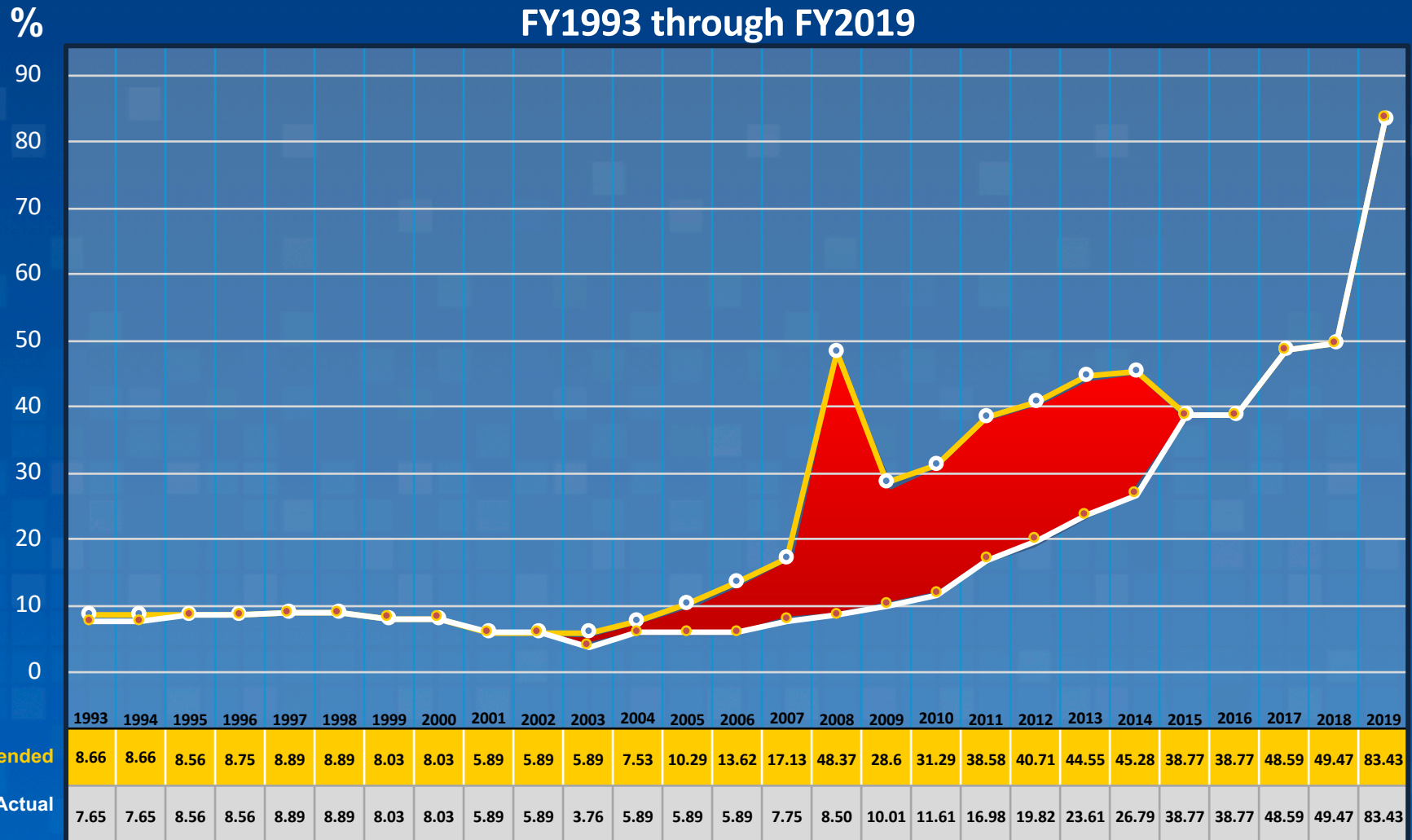
- **Optimistic** actuarial assumptions
- **Assumptions** historically led to understated ARCs
- From 2000-2014, budgeted contributions were **only 30+% of the ARC**
- The General Assembly gave **retroactive benefit increases** that were not prefunded
- Retirees received **COLAs** that were not prefunded
- Experienced two major **market declines**





# CONTRIBUTION RATES

## Recommended vs Budgeted

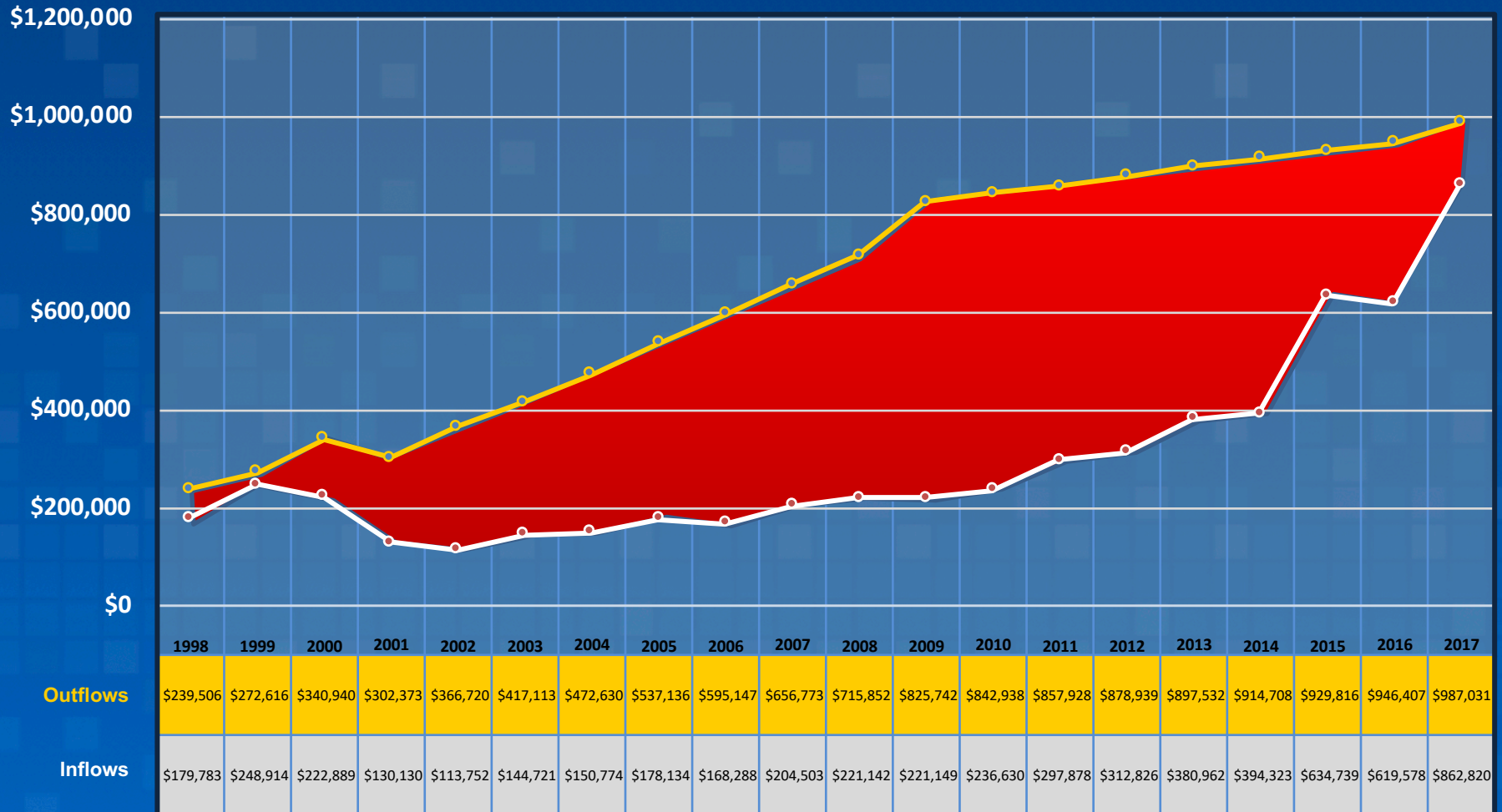




# PENSION CASHFLOW

## Excluding Investment Activity

FY1998 through FY2017





# CONTRIBUTION RATES

## Recommended vs Budgeted

%

100

80

60

30

20

10

0

FY1993 through FY2019

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Recommended	8.82	8.82	8.82	8.94	8.65	8.65	8.22	7.28	7.17	6.41	6.34	7.34	8.48	10.98	13.19	16.17	13.50	16.16	16.93	18.96	19.55	18.89	17.67	17.06	18.68	19.18	21.48
Actual	8.82	8.82	8.82	8.94	8.65	8.65	8.22	7.28	7.17	6.41	6.34	7.34	8.48	10.98	13.19	16.17	13.5	16.16	16.93	18.96	19.55	18.89	17.67	17.06	18.68	19.18	21.48

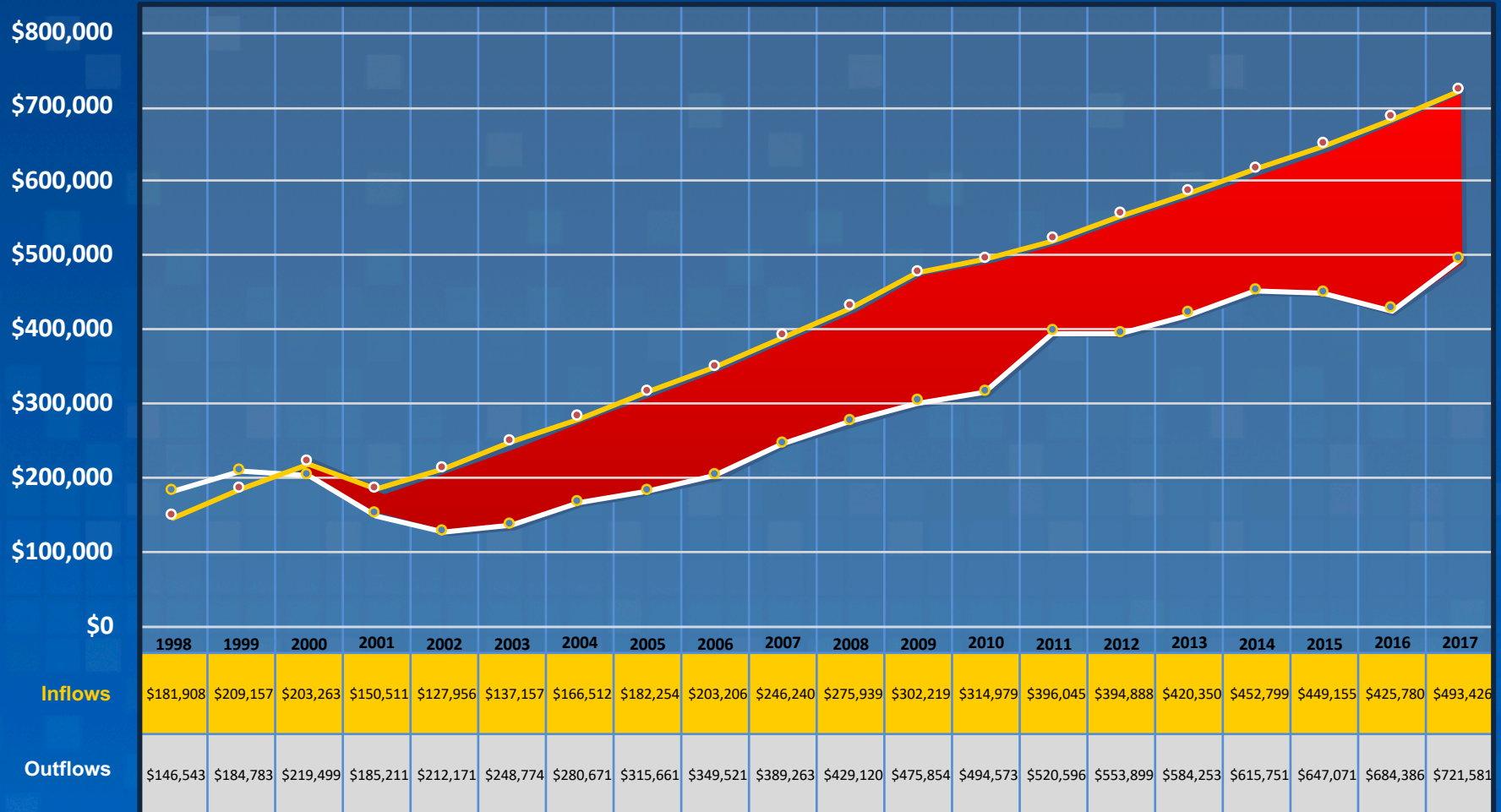
Pension and Insurance Rates



# PENSION CASHFLOW

## Excluding Investment Activity

FY1998 through FY2017





# CHALLENGES

- 51% of the CERS and 64% of KERS Pension Liability is for those already retired

*...a Defined Contribution Plan does not reduce that.*

- Contribution rates are high and going higher

*...encouraging outsourcing and cessation*

- Communications – Most people do not understand the problem or the solutions.

- Investment earnings won't solve the problem

*...the asset bases are too small.*

# Wilshire Consulting Performance Comparison

## KRS Pension Plan Composite

*Period Ended March 31, 2018*

	1 Quarter	YTD	1 Year	3 Years	5 Years	10 Years
<b>KRS Pension Plan (Net)</b>	<b>0.41%</b>	<b>7.72%</b>	<b>11.19%</b>	<b>7.03%</b>	<b>7.38%</b>	<b>5.98%</b>
KRS Pension Plan (Gross)	0.60 (15)	8.32 (22)	12.01 (20)	7.67 (23)	7.93 (60)	6.30 (70)
1 KRS Allocation Index	-0.25 (51)	7.09 (50)	10.69 (44)	7.03 (44)	7.77 (62)	6.35 (67)
2 KRS IPS Benchmark	-0.11 (47)	5.90 (80)				
25th %tile	0.28	8.22	11.73	7.61	8.85	7.10
Median	-0.23	7.15	10.34	6.91	8.24	6.79
75th %tile	-0.90	6.37	9.19	5.88	7.22	6.16
95th %tile	-1.42	3.37	5.85	3.49	4.52	5.55
*TUCS Number of Funds	137	135	135	135	133	112

\*TUCS Total Ret of Master Trusts - Public Universe - Gross of Fees

# Wilshire Consulting Performance Comparison

**KRS Insurance Plan Composite**  
*Periods Ended March 31, 2018*

	1 Quarter	YTD	1 Year	3 Years	5 Years	10 Years
<b>KRS Insurance Plan (Net)</b>	<b>0.48%</b>	<b>8.02%</b>	<b>11.56%</b>	<b>7.29%</b>	<b>7.33%</b>	<b>5.32%</b>
KRS Insurance Plan (Gross)	0.73 (11)	8.69 (15)	12.45 (15)	8.00 (12)	7.92 (61)	5.64 (88)
1 KRS Allocation Index	-0.12 (47)	7.50 (43)	11.23 (33)	7.48 (27)	8.15 (53)	5.92 (84)
2 KRS IPS Benchmark	0.02 (38)	6.10 (79)				
25th %tile	0.28	8.22	11.73	7.61	8.85	7.10
Median	-0.23	7.15	10.34	6.91	8.24	6.79
75th %tile	-0.90	6.37	9.19	5.88	7.22	6.16
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# Misinformation

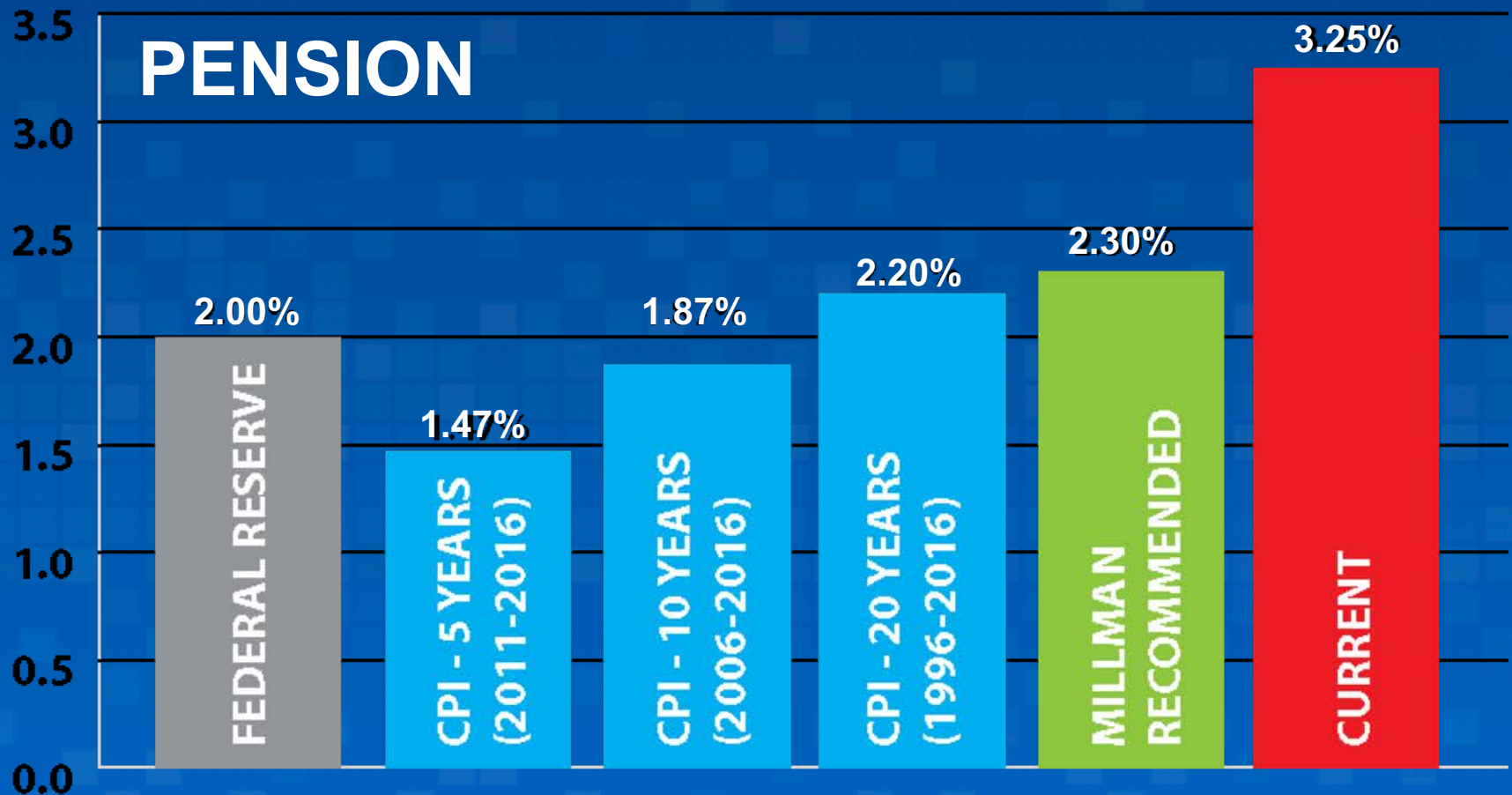
- 6/12 - 4/13 Investment Return +13.32%
- 6/12 - 4/13 Fund Balance grew by only +6.87%
- Missing \$688 Million  
( $13.32\% - 6.87\% = 6.45\% \times \text{Fund Balance}$ )
- “KERS should eat the loss”





# ECONOMIC ASSUMPTIONS have been too optimistic

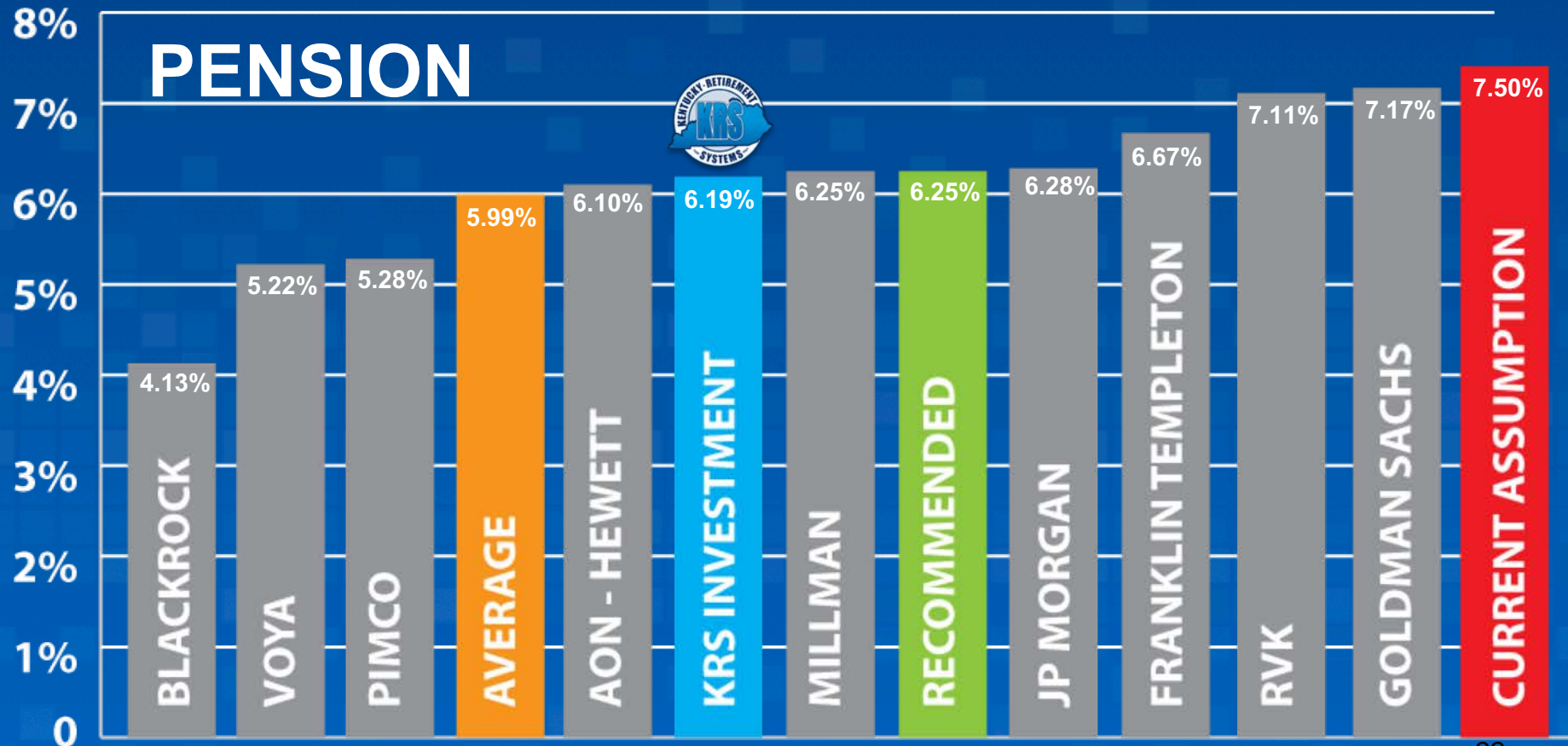
## ESTIMATED INFLATION (CPI)





# ECONOMIC ASSUMPTIONS

## ESTIMATED INTEREST RATE

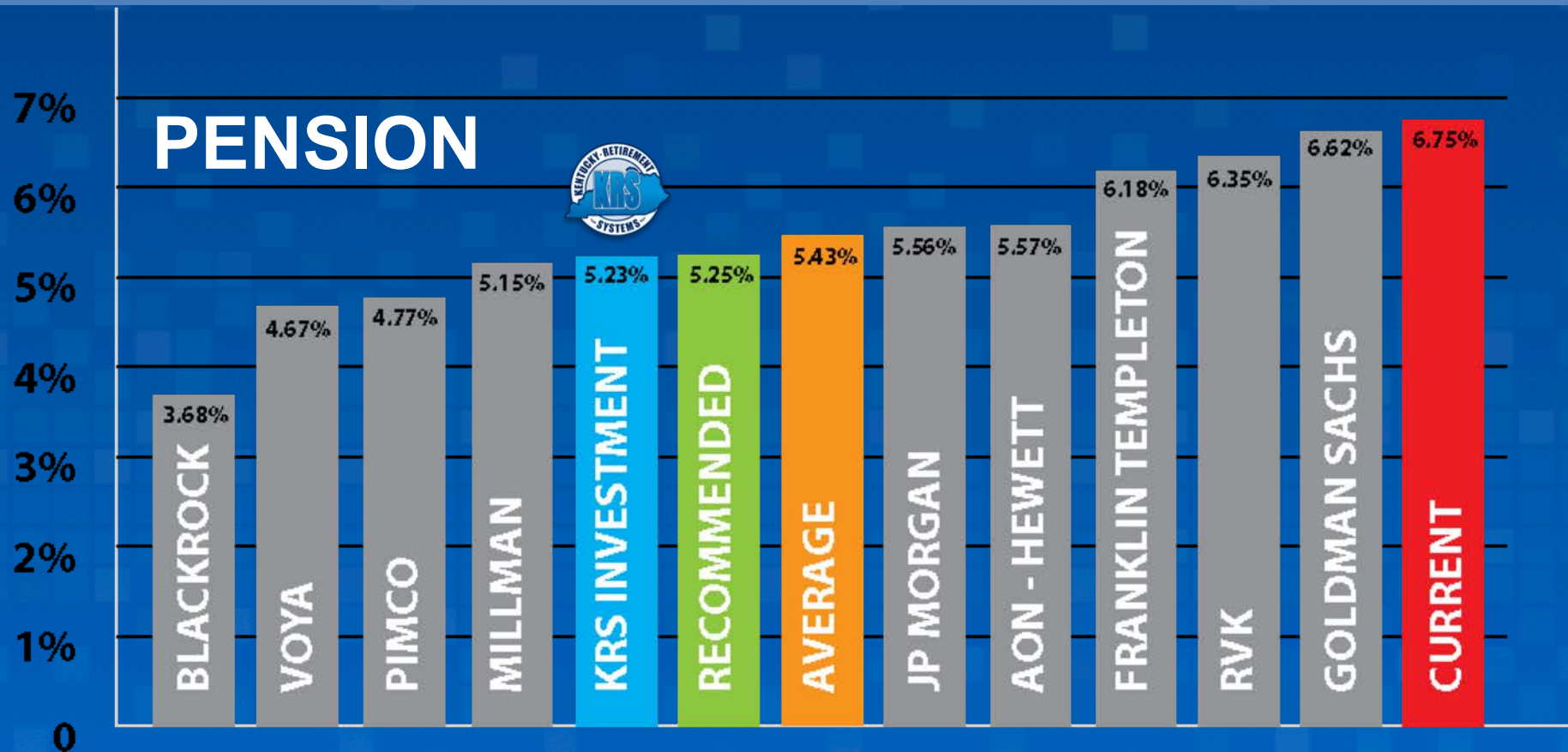




# ECONOMIC ASSUMPTIONS

have been too optimistic

## ESTIMATED INTEREST RATE



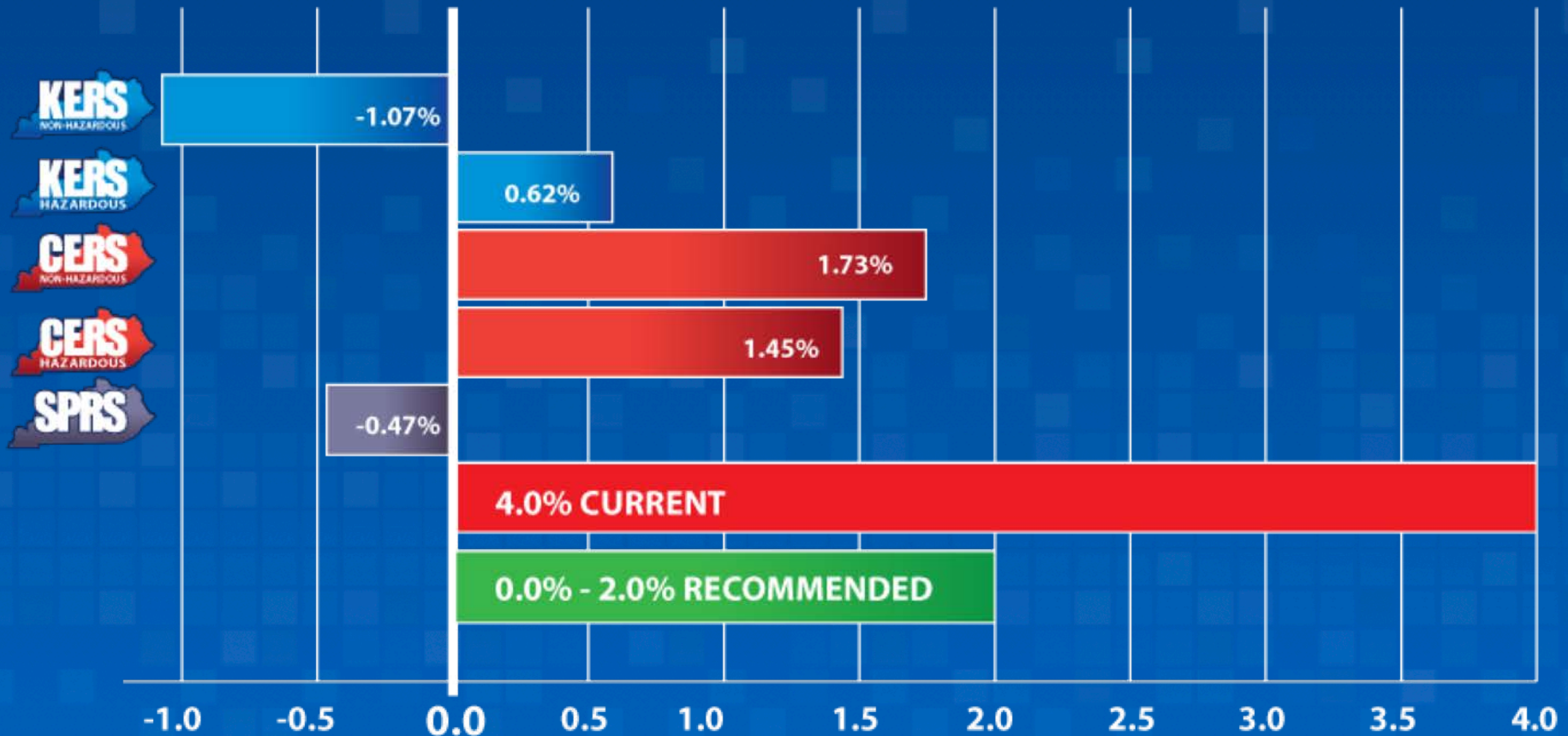




# ECONOMIC ASSUMPTIONS

## ANNUAL PAYROLL GROWTH RATE

FY 2006-2016





# **Impact of the Actuarial Assumptions Changes**

**The Unfunded Liability Went  
Up Over \$5 Billion**

**Contribution Rates Went Up  
About 50%**



## **From The New Jersey (Pension)**

### **“A Roadmap to Resolution”**

**“(The) window for a reasonable solution (to the funding crisis) is closing fast. The citizens of our Great State – public and private employees, employers, State and local officials, voters and taxpayers alike need to join together to make this solution possible.”**

# KEY MESSAGES

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- 2. The Governor, the Legislators and the KRS Board are dealing with the problems**
- 3. Retiree benefits should be safe**
- 4. But it will require a long time and a lot of fiscal sacrifice and legislative discipline**





*Questions?*





14:30 PM



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## Understand Recent Legislative Changes

The 2017 Regular Session of the Kentucky General Assembly has adjourned *Sine Die*. Several bills impacting KRS were passed: Click on the link below for more information.

[READ MORE](#)



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